STATEMENT OF SECRETARY OF DEFENSE ROBERT M. GATES
HOUSE APPROPRIATIONS COMMITTEE - DEFENSE
MARCH 2, 2011

Mr. Chairman, members of the committee.

I appreciate the opportunity to appear before you to discuss the President's budget request for Fiscal Year 2012. I first want to thank the members of this committee for your support of the men and women in uniform who have answered the call in a time of war. I know you will join me in doing everything to ensure they have all they need to accomplish their mission and come home safely.

The budget request for the Department of Defense being presented today includes a base budget request of $553 billion and an Overseas Contingency Operations request for $117.8 billion. These budget decisions took place in the context of a nearly two year effort by this Department to reduce overhead, cull troubled and excess programs, and rein in personnel and contractor costs – all for the purpose of preserving the fighting strength of America's military at a time of fiscal stress for our country. The goal was not only to generate savings that could be applied to new capabilities and programs, but for our defense institutions to become more agile and effective organizations as a result.

In all, these budget requests, if enacted by the Congress, will:

- Continue our efforts to reform the way the department does business;
- Fund modernization programs needed to prepare for future conflicts;
- Reaffirm and strengthen the nation's commitment to care for the all-volunteer force; and
- Ensure that our troops and commanders on the front lines have the resources and support they need to accomplish their mission.

Before I further summarize the elements of the President's budget request, I want to address three issues that I know have been a subject of debate and concern since I announced the outlines of our budget proposal on January 6:

- First, the damage caused to our military by operating under a continuing resolution or receiving a significant funding cut during fiscal year 2011;
- Second, the projected slowing and eventual flattening of growth of the defense budget over the next five years; and
- Third, the planned future reductions in the size of the ground forces.

I want to make clear that we face a crisis if the Department of Defense ends up with a year-long continuing resolution or a significant funding cut for FY 2011. The President's defense budget request for FY 2011 was $549 billion. A full-year continuing resolution would fund the department at about $526 billion. That's a cut of $23 billion. The legislation the House passed a week ago would provide us with about $532 billion – a cut of $17 billion.

Let me be clear: Operating under a year-long continuing resolution or substantially reduced funding – with the severe shortfalls that entails – would damage procurement and research programs causing delays, rising costs, no new program starts and serious disruptions in the production of some our most high demand assets, such as Unmanned Aerial Vehicles. The

reductions would likely fall most heavily on our operations and maintenance accounts. Cuts in maintenance could force parts of our aircraft fleet to be grounded and delay needed facilities improvements. Cuts in operations would mean fewer flying hours, fewer steaming days, and cutbacks in training for home-stationed forces – all of which directly impacts readiness. That is how you hollow out a military – when your best people, your veterans of multiple combat deployments, become frustrated and demoralized and, as a result, begin leaving military service.

Consider also that throughout this past decade of conflict, the service chiefs and Members of Congress have repeatedly voiced concerns about the lack of training opportunities for conventional high-end combat resulting from the operational demands of Iraq and Afghanistan. We are just now beginning to get the kind of dwell time for our home stationed forces to allow that kind of training. If forced to operate under a continuing resolution or reduced funding, some of that full-spectrum training will not happen in Fiscal Year 2011.

Mr. Chairman, I recognize that given the current fiscal and political environment, it is unlikely that the Defense Department will receive the full amount originally requested for FY 11. Based on a number of factors – including policy changes that led to lower personnel costs and reduced activity forced by the continuing resolution – I believe the department can get by with a lower number. However, it is my judgment that the Department of Defense needs an appropriation of at least $540 billion for Fiscal Year 2011 for the U.S. military to properly carry out its mission, maintain readiness, and prepare for the future.

Which brings me to the second issue – the proposed $78 billion reduction in the defense budget topline over the next five years. To begin with, this so-called "cut" is to the rate of predicted growth. The size of the base defense budget is still projected to increase in real, inflation-adjusted dollars, before eventually flattening out over this time period.

More significantly, as a result of the efficiencies and reforms undertaken over the past year, we have protected programs that support military people, readiness, and modernization. These efforts have made it possible for the department to absorb lower projected growth in the defense budget without sacrificing real military capabilities. In fact, the savings identified by the services have allowed our military to add some $70 billion towards priority needs and new capabilities.

And, of the $78 billion in proposed reductions to the five year defense budget plan, about $68 billion comes from a combination of shedding excess overhead, improving business practices, reducing personnel costs, and from changes to economic assumptions. Only $10 billion of that five-year total is related directly to military combat capability. $4 billion comes from restructuring the Joint Strike Fighter program, a step driven by the program's development and testing schedule that would have taken place irrespective of the budget top-line.

The rest, about $6 billion, results from the proposed decrease in end strength of the Army and Marine Corps starting in FY 2015, a decision that I will address now. Just over four years ago, one of my first acts as defense secretary was to increase the permanent end strength of our ground forces – the Army by 65,000 to a total of 547,000 and the Marine Corps by 27,000 to 202,000. At the time, the increase was needed to relieve the severe stress on the force from the Iraq war as the surge was getting underway. To support the later plus up of troops in Afghanistan, I subsequently authorized a temporary further increase in the Army of some 22,000. The objective was to reduce stress on the force, limit and eventually end the practice of stop-loss, and to increase troops' home station dwell time.

As we end the U.S. troop presence in Iraq this year, according to the agreement with the Iraqi government, the overall deployment demands on our force are decreasing significantly.

Just three years ago, we had some 190,000 troops combined in Iraq and Afghanistan. By the end of this calendar year we expect less than 100,000 troops to be deployed in both of the major post-9/11 combat theaters, virtually all of those forces being in Afghanistan.

That is why we believe that, beginning in FY 2015, the U.S. can, with minimal risk, begin reducing Army active duty end strength by 27,000 and the Marine Corps by somewhere between 15,000 and 20,000. These projections assume that the number of troops in Afghanistan would be significantly reduced by the end of 2014, in accordance with the President's strategy. If our assumptions prove incorrect, there's plenty of time to adjust the size and schedule of this change.

It is important to remember that even after the planned reductions, the active Army end strength would continue to be larger, by nearly 40,000 soldiers, than it was when I became defense secretary four years ago. I should also note that these reductions are supported by both the Army and Marine Corps leadership.

I would note that prior to these budget decisions, the last Marine Commandant stated that he believed the Marine Corps was larger than it should be for the long term. The current Commandant, General Amos, has just completed a comprehensive force structure review for the post-Afghanistan security environment that is consistent with the out-year reductions projected in the President's budget plan.

Reform – Efficiencies

These budget decisions took place in the context of a nearly two year effort by the Department of Defense to reform the way the Pentagon does business – to change how and what we buy, to replace a culture of endless money with one of savings and restraint. To not only make every defense dollar count, but also become a more agile and effective organization in the process.

Last spring, we launched a comprehensive effort to reduce the department's overhead expenditures. The goal was – and is – to sustain the U.S. military's size and strength over the long term by reinvesting those efficiency savings in force structure and other key combat capabilities. This process culminated in my announcement last month that summarized the impact of these reforms on the FY 12 budget.

The military services conducted a thorough scrub of their bureaucratic structures, business practices, modernization programs, civilian and military personnel levels, and associated overhead costs. They identified potential savings that totaled approximately $100 billion over five years. More than $70 billion is being reinvested in high priority needs and capabilities, while about $28 billion is going to higher than expected operating costs – "must pay" bills that would otherwise be paid from investment accounts.

We then looked at reducing costs and deriving savings across the department as a whole – with special attention to the substantial headquarters and support bureaucracies outside the four military services – savings that added up to $78 billion over five years.

As I mentioned earlier, $10 billion of that total came from restructuring the Joint Strike Fighter program and reducing Army and Marine Corps end strength starting in FY 2015.

The rest of the DoD-wide savings came primarily from shedding excess overhead, improving business practices, and reducing personnel costs. Key examples include:

- $13 billion from holding the civilian workforce at FY 10 levels for three years, with limited exceptions such as growth in the acquisition workforce;

- $12 billion through the government-wide freeze on civilian salaries;
- $8 billion by reforming military health programs to maintain high quality care while slowing cost growth;
- $11 billion from re-setting missions, priorities, functions for the defense agencies and the Office of the Secretary of Defense.
- $6 billion by reducing staff augmentation and service support contracts by 10 percent annually for three years;
- $2.3 billion by disestablishing Joint Forces Command and the Business Transformation Agency;
- $1 billion by eliminating unnecessary studies and internal reports;
- $4 billion in changed economic assumptions, such as a lower than expected inflation rate;
- $100 million by reducing more than 100 flag officer and about 200 civilian senior executive positions; and
- $11 billion in a variety of smaller initiatives across the department.

To better track how and where taxpayer dollars are spent, the department is also reforming its financial management systems and practices – with the goal of having auditable financial statements by the congressionally mandated date of 2017. We are pursuing a streamlined approach that focuses first on the information we most use to manage the department.

FY 2012 Base Budget Request

The President's request for the base defense budget is for $553 billion, which represents a 3.6 percent real increase over continuing resolution levels – and about 1.5 percent real growth over the omnibus defense bill marked up by Congress last year. The four major components are:

- $207.1 billion for operations, maintenance, logistics and training;
- $142.8 billion for military pay and benefits;
- $188.3 billion for modernization; and
- $14.8 billion for military construction and family housing.

Modernization

In all, the FY 12 budget request includes $188.3 billion for modernization in the form of Procurement, Research, Development, Testing and Evaluation. Key modernization initiatives include:

- $4.8 billion to enhance ISR capabilities and buy more high demand assets, including the MC-12 surveillance aircraft, Predator, Reaper and Global Hawk UAVs – with the aim of achieving 65 Predator-class Combat Air Patrols by the end of FY 2013;
- More than $10 billion to modernize our heavily used rotary wing fleet;
- $3.9 billion to upgrade the Army's combat vehicles and communications systems;
- $4.8 billion to buy new equipment for the reserves;
- $14.9 billion to buy new fighters and ground attack aircraft;
- $24.6 billion to support a realistic, executable shipbuilding and investment portfolio that buys 11 ships in FY 12 and modernizes existing fleet assets;

- $10.5 billion to advance the modernization portion of the Administration's approach to ballistic missile defense – including $8.4 billion for the Missile Defense Agency; and
- $2.3 billion to improve the military's cyber capabilities.

Questions have been raised about whether we are too focused on current conflicts and are devoting too few resources to future possible high-end conflicts. This budget should put those questions to rest. The FY 2012 base request provides for significant investments at the high end of the conflict spectrum, including:

- $1 billion ($4.5 billion over the Future Years Defense Program) for a tactical air modernization program that would ensure that the F-22 will continue to be the world's preeminent air-to-air fighter. This effort will leverage radar and electronic protection technologies from the JSF program;
- $204 million ($1.6 billion over the FYDP) to modernize the radars of F-15s to keep this key fighter viable well into the future;
- $30 million ($491 million over the FYDP) for a follow-on to the AMRAAM, the medium range air-to-air weapon, that would provide greater range, lethality and protection against electronic jamming;
- $200 million ($800 million over the FYDP) to invest in technologies to disrupt an opponent's ability to attack our surface ships;
- $1.1 billion ($2.2 billion over the FYDP) to buy more EA-18 Growlers than originally planned, plus $1.6 billion over the FYDP to develop a new jamming system, expanding our electronic warfare capabilities;
- $2.1 billion ($14 billion over the FYDP) to fund Aegis-equipped ships to further defend the fleet from aircraft and missile attack and provide theater-wide tactical ballistic missile defense; and
- To improve anti-submarine capabilities, $2.4 billion for P-8 Poseidon aircraft ($19.6 billion over the FYDP) and $4.8 billion for procurement of Virginia-class attack submarines ($27.6 billion over the FYDP).

The FY 2012 budget also supports a long-range strike family of systems, which must be a high priority for future defense investment given the anti-access challenges our military faces. A key component of this joint portfolio will be a new long-range, nuclear-capable, penetrating Air Force bomber, designed and developed using proven technologies and with an option for remote piloting. It is important that we begin this project now to ensure that a new bomber can be ready before the current aging fleet goes out of service.

The budget request includes $10.6 billion to maintain U.S. supremacy in space, in keeping with the recently released National Security Space Strategy. This new strategy will help bring order to the congested space domain, strengthen international partnerships, increase resiliency so our troops can fight in a degraded space environment, and improve our acquisition processes and reform export controls to energize the space industrial base.

As the military services were digging deep for excess overhead, they were also taking a hard look at their modernization portfolio for weapons that were having major development problems, unsustainable cost growth, or had grown less relevant to real world needs.

The Joint Strike Fighter program received special scrutiny given its substantial cost and its central place in ensuring that we have a large inventory of the most advanced fifth generation

stealth fighters to sustain U.S. air superiority well into the future. The FY 12 budget reflects the proposed restructuring of the F-35 Joint Strike Fighter program to stabilize its schedule and cost. The department has adjusted F-35 procurement quantities based on new data on costs, on likely orders from our foreign nation partners, and on realigned development and test schedules.

The proposed restructuring adds over $4 billion for additional testing through 2016. It holds F-35 procurement in FY 12 at 32 aircraft and reduces buys by 124 aircraft compared with last year's plans. Even after these changes, procurement ramps up sharply to 108 aircraft by FY 2016. This is the fastest that future procurement can prudently be increased.

The F-35 restructuring places the Marine's STOVL variant on the equivalent of a two year probation. If we cannot fix this variant during this time frame and get it back on track in terms of performance, cost and schedule, then I believe it should be canceled. To compensate for any delays in F-35 deliveries, we propose buying 41 more F/A-18s between FY 2012 to 2014.

I also want to reiterate the President's and my firm opposition to buying an extra engine for the F-35 – a position echoed by the Air Force, Navy and Marine Corps leadership. We consider it an unnecessary and extravagant expense, particularly during this period of fiscal contraction.

This budget proposes cancelling the Expeditionary Fighting Vehicle and reallocating funds to existing Marine ground combat requirements, a decision based on the recommendation of the Secretary of the Navy and the Commandant of the Marine Corps.

Ultimately, the Navy and Marine Corps leadership based their recommendations on two main principles: affordability and balance. The EFV, a program originally conceived in the 1980s, has already consumed more than $3 billion to develop and will cost another $12 billion to build. The EFV as designed would have cost many times more than the system it would replace, with much higher maintenance and service costs. If continued over the next two decades, the EFV program would consume fully half of all Marine Corps procurement dollars while swallowing virtually the Corps' entire ground vehicle budget – procurement, operations, and maintenance – with all the risk to readiness that entails.

To be sure, the EFV would, if pursued to completion without regard to time or cost, be an enormously capable vehicle. But as with several other high end programs completed or cancelled in recent years – the F-22, the Army Future Combat Systems, or the Navy's DDG-1000 destroyer – the mounting cost of acquiring this specialized capability must be judged against other priorities and needs.

Let there be no doubt – we are committed to sustaining the Marine Corps amphibious mission. This FY 2012 request proposes that the $2.8 billion previously budgeted to the EFV for the next five years instead be re-invested towards an integrated new vehicle program for the Marine Corps, including:

- New armor, weaponry and engines, plus a life-extension program for the existing amphibious assault vehicles:
- The development of a new, more affordable, sustainable and survivable amphibious vehicle;
- Accelerated procurement of new personnel carriers; and
- Enhancement of existing Marine vehicles such as the Abrams tank and Light Armored Vehicle.

Throughout this process, we will harness the lessons learned – in terms of engineering, design, and testing – from the development of the EFV.

Personnel

The FY 12 budget request includes $142.8 billion for military pay and benefits and continues our strong support for troops and their families. This includes funding for wounded, ill and injured care, enhancing the military health care system and supporting military families under stress. Examples in this request include:

- $2.3 billion to provide care for our Wounded Warriors and their families; and
- $8.3 billion for supporting families, including child care and school programs; and

While the department continues to insist on and pay for the highest quality health care, we are also mindful of sharply rising health costs – which have risen over the last decade from $19 billion in 2001 to $52.5 billion in this budget request. The department has taken a comprehensive look at all facets of the military health care model – emphasizing the need to balance the number one priority of continuing to provide the highest care and service, while ensuring fiscally responsible management.

One area we have identified are benefits provided to working-age retirees under the TRICARE program. Many of these beneficiaries are employed full time while receiving full pensions, often forgoing their employer's health plan to remain with TRICARE. This should come as no surprise, given that the current TRICARE enrollment fee was set in 1995 at $460 a year for the basic family plan and has not been raised since. By comparison, the fees for a comparable health insurance program for federal workers total roughly $5,000 per year.

Accordingly, we propose a modest increase to TRICARE Prime enrollment fees for working age retirees: $2.50 per month for individuals and $5.00 per month for families in FY 2012, and then indexed to Medicare premium increases in future years.

We are proposing other health care initiatives such as efficiencies in pharmacy co-pays designed to provide incentives to make greater use of generic prescriptions and those ordered by mail. We also seek to phase out, over several years, special subsidies offered to a small group of hospitals that treat military families and retirees. Additionally, we are proposing providing TRICARE-for-Life to all Medicare-eligible retirees aged 65 and over, including future enrollees in the Uniformed Services Family Health Plan. It is important to note that none of these changes would affect health care benefits for active-duty personnel.

Security Assistance Reform

The FY 12 request includes funding and authorization for a key step forward in a critical policy area: helping other countries to protect and defend themselves. The Pentagon and the State Department have agreed to a three-year pilot pooled fund - called the Global Security Contingency Fund - that will be used to build partner capacity, prevent conflicts, and prepare for emerging threats. The proposed fund would incentivize interagency collaboration through a new business model. It would provide a more agile and cost effective way to reduce the risk of future conflicts by allowing our government to respond to unforeseen needs and take advantage of emerging opportunities to help partners secure their own territories and regions.

The request is modest, an initial $50 million State Department appropriation, along with a request for authority to transfer an additional $450 million into the fund from either department if needed. The Department of Defense intends to make significant contributions from its own resources into this pooled fund. We will be requesting in parallel an authorization for this initiative in the FY 12 NDAA.

Overseas Contingency Operations

Finally, this budget request includes $117.8 billion in FY 2012 to support Overseas Contingency Operations, primarily in Afghanistan, and to wind down our operations in Iraq – this is a significant reduction from the $159 billion request for OCO in FY 2011. The request, which fully funds our wartime requirements, includes:

- $86.4 billion for wartime operations and related costs;
- $425 million for the Commander's Emergency Response Fund;
- $475 million for the Afghan Infrastructure Fund;
- $2.6 billion to support counter-IED efforts;
- $3.2 billion for MRAP vehicles, including the MRAP All Terrain Vehicles developed for Afghanistan; and
- $11.9 billion to replace and restore worn, damaged or destroyed equipment.
- $12.8 billion for training and equipping of the Afghan security forces.

Office of Security Cooperation – Iraq

I also want to mention a request in FY 2012 for $524 million for the Office of Security Cooperation - Iraq (OSC-I). The OSC-I, which will be jointly funded with the State Department, will execute our Foreign Military Sales program in Iraq. OSC-I will help ensure the continuation of military-to-military relationships that advise, train, and assist Iraq's security forces. In order to provide timely assistance and enable the transition to a civilian-led mission in Iraq, we need to begin funding OSC-I initiatives in FY 2011 and continue to support the OSC-I requested funds in FY 2012. DoD needs legislative authority to provide this assistance, and we ask the Congress to include this authority in our appropriation bill for FY 2011.

Conclusion

All told, the cumulative effect of the department's savings and reforms, combined with a host of new investments, will make it possible to protect the U.S. military's global reach and fighting strength despite the declining rate of growth, and eventual flattening, of the defense budget over the next five years. As a result of the savings identified by the services and reinvested, our military will be able to meet unforeseen expenses, refurbish war worn equipment, buy new ships and fighters, begin development of a new long-range bomber, boost our cyber-warfare capability, missile defense, and buy more of the most advanced UAVs. But, I should note, this will only be possible if the efficiencies reforms and savings are followed through to completion.

Before closing, I want to address the calls from some quarters for deeper cuts in defense spending to address this country's fiscal challenges. I would remind them that over the last two defense budgets submitted by President Obama, we have reformed and rebalanced the department's spending habits and priorities, curtailing or canceling troubled or excess programs that would have cost more than $300 billion if seen through to completion. Additionally, total defense spending – including war costs – will decline further as the U.S. military withdraws from Iraq.

We still live in a very dangerous and often unstable world. Our military must remain strong and agile enough to face a diverse range of threats – from non-state actors attempting to acquire and use weapons of mass destruction and sophisticated missiles, to the more traditional

threats of other states both building up their conventional forces and developing new capabilities that target our traditional strengths.

We shrink from our global security responsibilities at our peril. Retrenchment brought about by short-sighted cuts could well lead to costlier and more tragic consequences later – indeed as they always have in the past. Surely we should learn from our national experience, since World War I, that drastic reductions in the size and strength of the U.S. military make armed conflict all the more likely – with an unacceptably high cost in American blood and treasure.

Today, I ask your support for a leaner, more efficient Pentagon and continued sustainable, robust investments in our troops and future capabilities. Our troops have done more than their part, now it is time for us in Washington to do ours.

Mr. Chairman, I look forward to working through this next phase of the President's defense reform effort with you in the weeks and months ahead – to do what's right for our Armed Forces and what's right for our country.

# # #